

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SS-15 L-02 H-01 NSC-05 SSO-00 NSCE-00

AGR-05 AID-05 CEA-01 CIAE-00 COME-00 EB-07 EA-06

FRB-03 INR-07 IO-10 NEA-09 NSAE-00 RSC-01 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 PA-01

PRS-01 USIE-00 STR-01 TAR-01 FEA-01 IGA-01 XMB-02

INRE-00 /110 W

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O 011357Z FEB 75

FM USMISSION OECD PARIS

TO SECSTATE WASH DC IMMEDIATE 5250

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FOR ROBINSON, ENDERS, AD PREEG

TREASURY PASS BENNETT

E.O. 11652: N/A

TAGS: OECD, ETRD

SUBJECT: SECGEN VAN LENNEP URGES ACTION ON COMMODITIES

1. SUMMARY: OECD SECGEN VAN LENNEP HAS TOLD MISSION HE SEES URGENT NEED FOR DC "PREEMPTIVE" ACTION IN COMMODITIES FIELD TO COUNTER OIL-COMMODITIES LINK BEING FORGED BY OPEC, TO ALLEVIATE ADVERSE EFFECTS OF CURRENT PRICE BUST ON LDC'S AND TO ENSURE ADEQUATE SUPPLY OF RAW MATERIALS FOR INDUSTRIAL WORLD IN LONGER RUN. VAN LENNEP PROPOSES TO MAKE GENERAL SUBJECT PART OF AGEN-DA FOR PROPOSED XCSS "BUREAU" MEETING IN MID-FEBRUARY. SECRETARIAT'S PRELIMINARY VIEWS ON CONCRETE STEPS CENTER ON EMERGENCY MEASURES TO SUPPORT PRICES BY STOCKPILE OPERATIONS AND POSSIBLY EXPANDED IMF COMPENSATORY FINANCING.

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ACTION REQUESTED: DEPARTMENT'S VIEWS ON SECGEN'S

PROPOSAL FOR XCSS BUREAU DISCUSSIONS.  
END SUMMARY.

2. IN JANUARY 31 MEETING WITH AMBASSADOR, DCM, AND COUNSELOR, OECD SEC GEN VAN LENNEP EXPRESSED HIS CONCERN ABOUT CURRENT DEVELOPMENTS IN COMMODITY MARKETS. HE NOTED HE HAD MANDATE FROM COUNCIL TO MAKE PROPOSALS ON COMMODITY PROBLEMS, AND, ALTHOUGH HE HAD FOUND NO ALTOGETHER SATISFACTORY APPROACH SO FAR, HE WAS CONVINCED INTERNATIONAL ACTION WAS NEEDED BECAUSE OF THE POTENTIAL ADVERSE IMPLICATIONS OF CURRENT DEVELOPMENTS FOR THE PRODUCER-CONSUMER DIALOGUE ON OIL, WORLD INDUSTRIAL ECONOMY, AND FOR THE LDC'S.

3. VAN LENNEP SAID THE MAGNITUDE OF PRICE FLUCTUATIONS FOR MAJOR COMMODITIES WAS MUCH GREATER IN RECENT YEARS THAN IT HAD BEEN. THIS WAS BOUND TO HAVE SERIOUS ADVERSE EFFECTS ON LDC'S. IN ADDITION THIS MADE IT INCREASINGLY DIFFICULT TO ACHIEVE RATIONAL EXPANSION OF PRODUCTION FACILITIES FOR RAW MATERIALS ESSENTIAL TO HEALTH OF INDUSTRIAL WORLD -- THE PROSPECT WAS FOR MORE SEVERE CYCLES OF BOOM AND BUST. IT WAS CLEAR THAT THE CURRENT DECLINE WAS FASTER AND MORE SEVERE THAN EXPECTED AND PRICES OF MOST NON-FOOD COMMODITIES HAD REACHED A NEW LOW WITH NO ASSURANCE THAT THE BOTTOM HAS BEEN REACHED. ONLY TIN AND JUTE AMONG INDUSTRIAL RAW MATERIALS WERE IN A RELATIVELY STRONG POSITION, AND HE EXPECTED FOOD PRICES TO FALL TOO. WHEN INDUSTRIAL GROWTH RESUMED, WE WOULD AGAIN BE FACED WITH SHORTAGES. SOME AGREEMENT ON INTERNATIONAL RESPONSIBILITY TO COUNTER THIS TREND WAS NECESSARY.

4. THE SEC GEN THEN TURNED TO THE OIL-COMMODITIES LINK BEING PUSHED BY ALGERIANS IN OPEC. HE SAW ALGERIANS' USE OF OIL AS EXAMPLE TO OTHER LDC'S AND INSISTENCE ON DISCUSSING OIL ONLY IN BROADER COMMODITY CONTEXT AS SHREWD POLITICAL MOVE TO ACHIEVE LDC SUPPORT FOR OPEC

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OBJECTIVES, AND SAID HE THOUGHT PREEMPTIVE ACTION BY DC'S IN COMMODITY AREA MIGHT NOW BE AN ESSENTIAL PRECONDITION TO HAVING A SUCCESSFUL CONSUMER-PRODUCER DIALOGUE.

5. VAN LENNEP AND PLESSZ (CHIEF OF SECRETARIAT'S GENERAL ECONOMIC QUESTIONS DIVISION) MENTIONED SEVERAL CONCRETE IDEAS FOR ACTION IN COMMODITIES FIELD. BASIC IDEA THEY FELT, SHOULD BE TO PUT FLOOR UNDER PRESENT LOW PRICE LEVELS FOR CERTAIN COMMODITIES. ONE POSSIBILITY WAS UNILATERAL ACTION TAKEN BY CONSUMERS (SUCH AS RECENT FRENCH DECISION) TO BEGIN HOLDING ECONOMIC STOCKPILES. THESE WOULD SERVE TO STABILIZE DOMESTIC PRICES AND COULD BE PROFITABLE IF AUTHORITIES BOUGHT LOW AND SOLD HIGH. ANOTHER AVENUE TO EXPLORE WOULD BE EXPANSION OF IMF COMPENSATORY FINANCING FACILITIES TO HELP PUT SOME SORT OF FLOOR UNDER COMMODITY PRICES. THE IDEA OF LIMITED OFFICIAL USE

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AN "INTERNATIONAL EMERGENCY PROGRAM" TO PREVENT COMMODITY PRICES FROM FALLING BELOW THE "COST OF PRODUCTION" (AND THUS LEADING TO FUTURE SHORTAGES) WAS ALSO ATTRACTIVE.

6. VAN LENNEP NOTED THESE PROBLEMS WENT BEYOND ORDINARY CONSIDERATIONS OF TRADE POLICY. HIS OWN THINKING WAS THAT IT WOULD BE A GOOD TOPIC FOR POSSIBLE MEETING OF XCSS "BUREAU" IN MID-FEBRUARY COMBINING AS IT DOES A WIDE RANGE OF INTERRELATED POLITICAL AND ECONOMIC FACTORS.

7. WE TOLD VAN LENNEP WE SYMPATHIZED WITH HIS CONCERNS,  
THOUGHT THE OECD HAD AN IMPORTANT ROLE TO PLAY IN  
COMMODITY MATTERS, AND THOUGHT PROPOSALS FOR AN EARLY  
XCSS BUREAU DISCUSSION MADE SENSE. WE AGREED TO CONVEY  
HIS VIEWS TO WASHINGTON AND RECOMMEND THAT US REP BE  
PREPARED TO DISCUSS COMMODITY ISSUES AT FEBRUARY  
MEETING.  
TURNER

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